

Markets This Week Ahead of the Open

Key Takeaways

- Drug-delivery infrastructure providers warrant attention amid heightened demand for diabetes and weight-loss treatments
 - Improved housing affordability couldn't translate into higher home-sales for January
 - January's CPI report showed cooling inflation, supporting a gradual shift toward policy normalization
 - Asian Equities experience increased focus after consistent outperformance over their peers
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West Pharmaceutical Surges on Earnings Beat and Strong FY26 Outlook

“Elevated demand for diabetes and weight-loss therapies drives strong results and forward guidance”

Thursday morning West Pharmaceutical reported its fourth quarter earnings, which took the market by surprise. Adjusted EPS for this quarter came in at \$2.04 per share, well beyond analyst expectations of \$1.83 per share. Revenue, for this quarter as well, came in at \$805 million, beating analyst expectations of \$794.3 million. Top-line results were what stole the headlines, but what further reinforced the strength of these results was the robust outlook West Pharmaceutical provided for the next fiscal year.

For FY26, annual revenue was projected to be between \$3.22 to \$3.28 billion, compared to average analyst expectations of \$3.25 billion. Adjusted EPS was forecast to be between \$7.85 to \$8.20 per share, above analyst expectations of \$7.78 per share. For the next quarter, or Q1, adjusted EPS was forecast to be between \$1.65 to \$1.70 per share, compared to estimates of \$1.65 per share.

The surge in demand regarding newer weight-loss and diabetic treatments has trickled down to medical equipment makers such as West Pharmaceutical, an effect many overlooked. One of West's primary operating segments, Proprietary Products, which includes syringes and cartridges used in injectable therapies, grew 7.7% this quarter, underscoring sustained demand for drug delivery infrastructure. While industry heavyweights such as Eli Lilly and Novo Nordisk continue to dominate headlines, investors have increasingly overlooked the companies operating behind the scenes that enable these therapies at scale. West's latest earnings report serves as a reminder that the broader supply chain is experiencing similar momentum and should not be overlooked.

Home Sales Decline

“Despite improving affordability, residential home-sales declined”

The National Association of Realtors (NAR) released its Existing-Home Sales report on Wednesday, delivering mixed signals for the housing market. Although affordability has improved to its most favorable level since March 2022, January sales still declined.

On a month-over-month basis, existing-home sales fell 8.4% to a seasonally adjusted annual rate of 3.91 million units, while year-over-year sales declined 4.4%. Determining the weakness was complicated due to severe weather disruptions across several regions of the United States, which likely weighed on transaction activity during the month.

The median existing-home price rose 0.9% year over year, reflecting a constrained housing supply. At the same time, affordability conditions improved across all regions, primarily due to wage growth outpacing home price increases and modest declines in mortgage rates. Looking ahead, the key variable for housing will be the direction of mortgage rates, which will largely depend on fiscal conditions and the path of Treasury yields. Fannie Mae and Freddie Mac had been active participants in the mortgage-backed securities market, helping support mortgage spreads and borrowing costs. However, their participation has slowed in the past few months, ultimately leaving rates stable.

January CPI Report Signals Cooling Inflation

“Softer inflation and strong employment reduce pressure for further tightening”

Friday morning, the Bureau of Labor Statistics released its January Consumer Price Index summary, indicating a moderation in inflationary pressures. Headline CPI rose 2.4% year over year, down from 2.7% in the twelve months ending December. Core CPI increased 2.5%, in line with expectations.

The food at home index rose 2.1% year over year, with meats, poultry, fish, and eggs up 2.2%, and cereal and bakery products increasing 3.1%. In contrast, energy prices declined, with the energy index falling 1.5%, primarily driven by a 3.2% drop in gasoline prices on a seasonally adjusted basis.

The significance of this report is amplified by its release following a strong jobs report. After the Fed held rates steady at its January FOMC meeting, investors turned to incoming BLS data for clearer policy direction. Together, the recent labor and inflation readings reinforce the view that the tightening cycle has likely concluded, allowing policymakers to remain on hold in the near term while reducing the need for further hikes. With stable employment and inflation moderation, markets have increasingly begun to price a gradual transition away from restrictive policy toward normalization, a shift reflected in falling 10-year Treasury yields as investors adjusted expectations for the future path of rates.

Asian Equities Warrant Attention

“Asian Equities Outperform on AI Demand and Macro Tailwinds”

Asian equities have recently drawn increased investor focus, with semiconductor manufacturers and large technology firms outperforming U.S. and European peers. Accelerating AI demand and sustained corporate capital spending have positioned semiconductor producers as early-cycle beneficiaries, a trend evident in market performance at the start of the year.

In January, a broad gauge of Asian equities rose 7.5%, its strongest monthly advance since 2023, while the MSCI Asia Pacific Index gained 13.7% year to date. By comparison, the S&P 500 rose just 1.4%. Performance has been led by South Korean and Japanese technology firms alongside Taiwanese manufacturers, reflecting strong order books and continued demand for advanced chips.

The strength has extended beyond equities into credit markets. A weaker dollar and improving financial conditions have supported demand for corporate debt issuance, pushing regional credit spreads toward historic lows. Investor appetite for technology-linked issuers remains elevated as companies tied to AI supply chains continue to see oversubscribed offerings.

The theme has gained traction among asset managers, many of whom have increased exposure to the region. The International Monetary Fund projects Asia will account for roughly 60% of global growth this year, reinforcing the structural growth narrative.

However, risks are emerging. Part of the region’s strength has been supported by dollar weakness, and expectations for a steeper yield curve and firmer dollar could tighten financial conditions. Elevated valuations also leave limited room for disappointment, particularly if semiconductor demand moderates or earnings underperform expectations. Overall, while the structural growth story remains intact, the balance between opportunity and risk has narrowed, suggesting investors should remain selective in positioning.